

**Background on the North Dakota Insurance Department's rate increase decision**  
Blue Cross Blue Shield 2008 individual policies

- **Sept. 4, 2007**—Blue Cross Blue Shield of North Dakota (BCBS) submits a rate increase request of 17.3 percent to the Insurance Department for group policies.
- **Oct. 24, 2007**—The Insurance Department notifies BCBS that it will not approve a 17.3 percent increase in the group major medical business, but will approve a 9.9 percent increase. In its rate increase request, BCBS included a 5.6 percent increase in payments to health care providers.

In the same notification letter, the Insurance Department communicates its intention to carefully monitor the accuracy of BCBS' assumptions provided in connection with rate increase requests, as well as requesting specific information regarding claim experience and payments to health care providers in order to compare actual results to the assumptions used in the request.

- **May 6, 2008**—BCBS submits a rate increase request of 14.8 percent to the Insurance Department for individual (Bank Depositor) policies. The rate increase request includes a 5.6 percent increase in payments to health care providers, identical to the 5.6 percent increase for group policies.
- **May 29, 2008**—BCBS notifies participating health care providers of reduced payments effective for services on or after Aug. 1, 2008. The letter states that the reduction will not exceed 2.5 percent.
- **June 18, 2008**—BCBS verifies via email that the reduced provider payments apply to the individual policies.
- **June 24, 2008**—The Insurance Department sends a letter to BCBS asking for more detailed information related to the provider payment reduction because it affects the cost assumption used to attempt to justify the rate increase requested. The Department specifically requests a detailed explanation of the decision to implement a reduction in payment. BCBS is given until July 1 to respond.
- **June 30, 2008**—BCBS notifies the Department that it is unable to respond to the request by July 1.
- **July 3, 2008**—BCBS responds to the Department's June 24 letter with incomplete information.
- **July 3, 2008**—The Insurance Department notifies BCBS of the implementation of a statutorily-allowed extension to continue consideration of BCBS' 14.8 percent rate increase request.
- **July 18, 2008**—The Insurance Department announces that it has disapproved BCBS' rate increase request due to unreliable assumptions, a lack of information and that the benefits provided under these policies are unreasonable in relation to the premiums.

**Blue Cross Blue Shield**  
**Rate increases and financial results**

Year	Rate increases				Financial results		
	Group		Individual		Annual underwriting gain	Annual net income	Total surplus
	Requested	Approved	Requested	Approved			
2001	14.8%	12.5%	0.0%	0.0%	\$17.0	\$23.8	\$137.3
2002	13.8%	11.9%	10.9%	10.2%	\$17.0	\$17.7	\$137.2
2003	11.2%	9.9%	10.5%	8.9%	\$21.2	\$26.6	\$187.8
2004	10.8%	8.5%	8.5%	4.2%	\$6.5	\$18.6	\$200.6
2005	6.0%	6.0%	13.2%	10.4%	\$30.3	\$38.5	\$222.7
2006	10.8%	7.0%	4.2%	2.9%	\$-17.1*	\$3.9*	\$233.3
2007	17.3%	9.9%	10.0%	9.4%	-\$3.1	\$18.0	\$236.3
2008			14.8%				

\*Reflects \$26.5 million premium refund

All monetary amounts in millions.

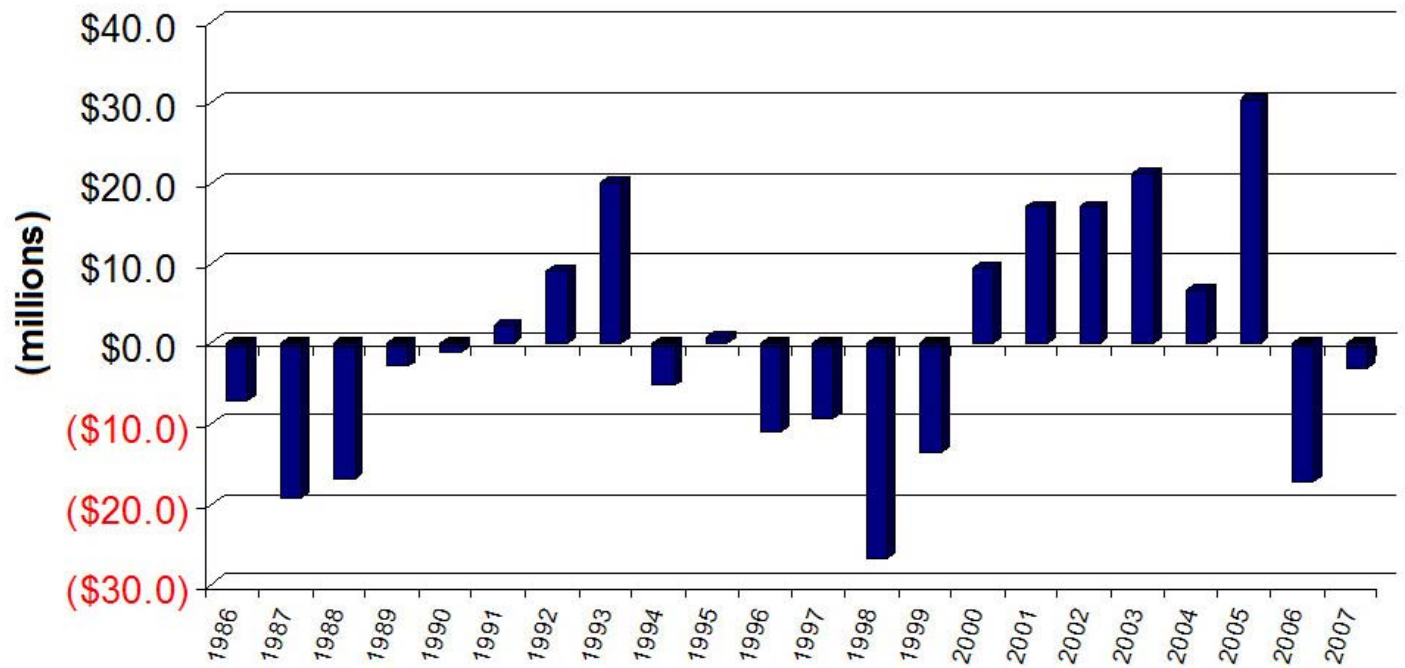
The chart above illustrates the requested and approved annual rate increases for Blue Cross Blue Shield of North Dakota (BCBS) since 2001, as well as the company's underwriting gains, net income and surplus.

- An underwriting gain is determined by subtracting all claims and expenses from the year's premium payments. Any amount remaining is an underwriting gain (for example, in 2002 BCBS realized a \$17 million dollar underwriting gain).
- Net income is the company's profit.
- Surplus is the buildup of past gains or losses. It is set aside to provide for unexpected losses.

**How to read this chart**

Example: In 2003, BCBS requested a 10.5% rate increase for individual policies. The Insurance Department approved a 8.9% increase. BCBS had an underwriting gain of \$6.5 million and a net income of \$18.6 million the following year.

## BCBS underwriting results



**Note: 2006 represents year a \$26.5 million premium refund was made. Refund was based on 2001-2005 period.**

### How to read this chart

The above chart illustrates underwriting cycles, i.e., periods of underwriting losses followed by periods of underwriting gains.